

Message Text

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ORIGIN ARA-10

INFO OCT-01 EA-07 ISO-00 /018 R

DRAFTED BY: ARA/BC/B:JBINNS

APPROVED BY: ARA/BC:JEKARKASHIAN

EA/IMS:ADORNHEIM (SUBS)

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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA PRIORITY

C O N F I D E N T I A L STATE 207750

FOLLOWING TEL SENT SECSTATE FROM LA PAZ 17 OCTOBER REPEATED

QTE C O N F I D E N T I A L LA PAZ 6303

E.O. 11652: GDS

TAGS: PFOR ETRD EAID BL

SUBJ: CONVERSATION WITH PRESIDENT BANZER--THE COTTON CONTRACTS
PROBLEM

1. PRESIDENT BANZER GAVE ME AN OPPORTUNITY TO RAISE TOPICS WITH HIM IN A CONVERSATION ON OCTOBER 17. FIRST I INFORMED HIM THAT THE US IS PREPARED TO AUTHORIZE THE ADDITIONAL 38,500 TONS OF PL-480 TITLE I WHEAT UNDER THE CURRENT AGREEMENT (SEE STATE 199559 OF OCTOBER 6). I NOTED THAT NOT ONLY DID THIS FULFILL OUR COMMITMENT BUT THAT THE COST OF THE TOTAL QUANTITY OF WHEAT WAS NOW \$17 MILLION AS COMPARED TO THE ORIGINAL AGREEMENT OF LESS THAN \$10 MILLION. I INDICATED THAT AN EXCHANGE OF NOTES WOULD BE REQUIRED TO INCREASE THE VALUE OF THE AGREEMENT. I ALSO NOTED THAT, DEPENDENT UPON A CONTINUING RESOLUTION, WE COULD BE PREPARED TO MOVE AHEAD ON CURRENTLY AUTHORIZED BUT UNSIGNED LOAN FOR ELECTRIC ENERGY. HAVING THUS ESTABLISHED WHAT I CONSIDERED A SOLID BASE FOR OUR ADHERENCE TO OUR COMMITMENTS, I THEN MOVED TO A CONVERSATION ON THE COTTON CONTRACT PROBLEM.

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2. I TOLD THE PRESIDENT THAT I HAD INSTRUCTIONS FROM WASHINGTON

TO RAISE THE COTTON CONTRACT PROBLEM AS A VERY SERIOUS MATTER IN OUR BILATERAL RELATIONS. I POINTED OUT THAT WE ARE FIRM BELIEVERS IN THE SANCTITY OF CONTRACTS AND THIS WAS THE HEART OF THE PROBLEM. I NOTED THAT THE GOVERNMENT'S DECREES OF AUGUST HAD A RETROACTIVE EFFECT WHICH THE COTTON PRODUCERS ASSOCIATION WAS ASSERTING PROVIDED THEM RELIEF FROM FULFILLING THEIR OBLIGATIONS. I TOLD HIM THAT COOK INDUSTRIES, AS IS CUSTOMARY IN COMMODITY ACTIONS, HAD RESOLD THE COTTON THAT THEY HAD PURCHASED FROM ADEPA AND WITH THE FAILURE OF THE BOLIVIAN PRODUCERS TO MAKE GOOD, STANDS TO LOSE ANYWHERE FROM TWO AND A HALF TO SEVEN MILLION DOLLARS, DEPENDING UPON PRICE CALCULATIONS. I REQUESTED HIS COOPERATION IN SOLVING THIS PROBLEM WHICH WAS GROWING DAILY AS AN OBSTACLE IN OUR ABILITY TO PROVIDE NEW AND ADDITIONAL PROGRAMS OF COOPERATION.

3. PRESIDENT BANZER SAID HE HAD TALKED THE EVENING BEFORE WITH A COTTON PRODUCER FROM THE SANTA CRUZ AREA, WHO SAID THAT THE PROBLEM WAS BASICALLY THAT LETTERS OF CREDIT HAD NOT BEEN OPENED UP ON TIME, AND THUS THE CONTRACT WAS NOT VALID. THE PRESIDENT SAID HE UNDERSTOOD THE PROBLEM WOULD BE RAISED TO THE LEVEL OF THE SUPREME COURT AS THE JUDGE IN SANTA CRUZ HAD INDICATED THAT HE WAS NOT COMPETENT TO RULE IN THE MATTER. I TOLD PRESIDENT BANZER THAT I HAD HEARD ALLEGATIONS ABOUT THE LETTERS OF CREDIT AND THAT WE HAD MADE A VERY CAREFUL INVESTIGATION, DISCOVERING THAT ALL SUCH L/C'S HAD BEEN OPENED IN ACCORDANCE WITH THE TERMS OF THE CONTRACT, WITH THE EXCEPTION OF ONE, AGAINST WHICH ADEPA HAD SHIPPED. I POINTED OUT THAT THE BANK OF AMERICA HAD FINANCED THE COTTON CROP AND WAS AWAITING PAYMENT FROM THE SALE OF THE COTTON. THAT BANK AS WELL AS WE HAD HEARD SOME OF THE ALLEGATIONS FROM THE SANTA CRUZ PRODUCERS AND ADEPA AS TO WHY THEY WERE NOT FULFILLING THE CONTRACT WITH COOK. I INDICATED TO PRESIDENT BANZER THAT ALL OF THE ALLEGATIONS WE HAD INVESTIGATED HAD PROVEN TO BE UNFOUNDED, AND THAT A MAJOR JUSTIFICATION BEING OFFERED BY ADEPA WAS THE RETROACTIVE ASPECT OF THE GOVERNMENT'S DECREES OF AUGUST. PRESIDENT BANZER SAID THAT THE SANTA CRUZ COTTON PRODUCERS STAND TO LOSE APPROXIMATELY \$17 MILLION IF THEY ARE NOT ABLE TO SELL THIS YEAR'S CROP AT PRESENT WORLD PRICES. HE ALSO SAID THAT THE GOVERNMENT'S WEAKENED FISCAL SITUATION HE NEEDED THE ADDITIONAL

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\$4 MILLION THE GOB CALCULATED WOULD BE DERIVED FROM TAXES ON SALES AT THE HIGHER FIGURES. I SUGGESTED TO THE PRESIDENT THAT BOTH THE PRODUCERS AND THE GOVERNMENT MIGHT WELL LOOK TO THE FUTURE FOR INCREASED EARNINGS AND TAX RECEIPTS FROM HIGH WORLD PRICES BUT THAT EXISTING CONTRACTS SHOULD BE RESPECTED.

4. PRESIDENT BANZER THEN OFFERED TO PERSONALLY TALK TO ADEPA. HE SAID HE HAD NEVER TALKED WITH THEM BEFORE AND WAS

OF THE OPINION THAT SOME SOLUTION TO THIS PROBLEM COULD BE FOUND. HE INDICATED SOME HOPE THAT ARRANGEMENTS MIGHT BE MADE BETWEEN THE PRODUCERS AND THE BUYERS BUT THAT IN ANY EVENT HE WOULD TALK TO ADEPA. HE NOTED THOUGH THAT THE GOVERNMENT COULD NOT FORCE THE COTTON PRODUCERS OR ADEPA TO PERFORM.

5. I ASKED TO PRESIDENT HOW I MIGHT REPORT BACK TO WASHINGTON THE RESULTS OF OUR CONVERSATION. HE SAID THAT I COULD SAY THAT HE WOULD PERSONALLY TALK WITH ADEPA TO EXPLORE AVENUES BY WHICH THIS DISPUTE COULD BE RESOLVED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: WHEAT, COTTON, CREDIT, PL 480 TITLE 1, COMMODITY AGREEMENTS, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: worrelsw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE207750
Document Source: CORE
Document Unique ID: 00
Drafter: ARA/BC/B:JBINNS
Enclosure: n/a
Executive Order: GS KARKASHIAN
Errors: N/A
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731021/aaaaaowq.tel
Line Count: 128
Locator: TEXT ON-LINE
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: worrelsw
Review Comment: n/a
Review Content Flags:
Review Date: 21 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Nov-2001 by shawdg>; APPROVED <05 MAR 2002 by worrelsw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CONVERSATION WITH PRESIDENT BANZER--THE COTTON CONTRACTS PROBLEM
TAGS: PFOR, ETRD, EAID, BL, US, (BANZAR)
To: JAKARTA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005